

Regional Differences in Income for Former Welfare Recipients

Working Paper, Number Six

This paper is part of a series of that examines the income characteristics of parents who leave welfare. It examines the differences in incomes across regions for parents who have left welfare.

In 1996, the federal government reformed the welfare system that provided assistance for low-income families. The previous program, Aid to Families with Dependent Children (AFDC) provided cash assistance and other benefits to low-income families with children.¹ The new federal law implemented the program Temporary Assistance to Needy Families (TANF) and made several significant changes, including incorporating time-limited benefits, work requirements, and block grants to states. Minnesota developed its own program, the Minnesota Family Investment Program (MFIP), which meets federal requirements regarding time-limited cash benefits, work requirements, employment services, and child care services.

This brief examines the incomes of former welfare recipients that file for taxes in Minnesota. It finds that after adjusting for inflation, median real incomes of filers:

- Increase with the number of years after parents leave welfare, regardless of the region of the state
- Are higher in the Twin Cities metropolitan area
- Are lowest in the Duluth, Moorhead, and Grand Forks metropolitan areas

¹ Parents were eligible for Medicaid and, if enrolled in Stride, received additional case management and job training benefits.

- Are higher for married parents for all regions
- Are sometimes higher for recipients leaving MFIP compared to AFDC, one year after leaving the respective program, and
- May be higher than what would qualify the parent for AFDC or MFIP, one year after the recipient left the program

House Research plans to publish more briefs on this topic. These include:

- An analysis of income relative to the poverty guidelines
- A comparison of income by ethnicity
- A comparison of income by educational attainment
- A regression analysis isolating the contribution of individual characteristics.

For all regions, the median income of parents leaving welfare increases with the number of years since they left welfare

Tables 1 through 4 and Figures 1 through 4 show regional incomes of parents leaving welfare who filed income taxes (see the appendix for a map of regions). The tables and figures show an increase in median real incomes with the number of years after the recipient leaves welfare. Incomes were relatively constant in the years before recipients left welfare. These results hold across most regions.

In the years after leaving welfare, incomes for single parents were the highest in the Minneapolis-St. Paul metropolitan area and in the counties surrounding Hennepin and Ramsey counties. Incomes for married parents were highest first in Hennepin and Ramsey counties, then in the surrounding metropolitan area and the southeast nonmetropolitan area.² The lowest median incomes were in Moorhead, East Grand Forks, the northeast nonmetropolitan region, and the northwest nonmetropolitan region.³

² There may be some bias in the data. The longer the period after welfare, the higher the percentage of parents from earlier years of the data set. In fact, for incomes seven years after leaving welfare, only those that exited in 1992 could be reported—that is the only year in which there is data seven years after their exit. If parents who left in the early 1990s had less success than other parents, then the data may merely reflect a change in the composition of former recipients. This will be adjusted for in future studies with a regression analysis.

³ When looking at the time spent on welfare, parents from Duluth stay for a relatively long period of time. A previous paper on the characteristics of AFDC and MFIP recipients finds that parents from Duluth stay for nine or more months. It might be that parents from this region are either unable to find a job, or are finding relatively low-paying jobs. Parents from Moorhead and Grand Forks stay on for the shortest period of time. However, a substantial percentage of recipients from this region are Hispanic migrant farm laborers. Length of stays in the Minneapolis-St. Paul metropolitan region are longer. Within Hennepin and Ramsey counties, the median time spent on welfare is ten months.

How Tables and Graphs 1 through 4 were Constructed: The tables and graphs were constructed by converting parents' incomes to real incomes for calendar year 2001. Median incomes are estimated for all parents for the year they left welfare and for each year before and after leaving welfare. Incomes are not separated by whether the parent was on AFDC or MFIP. The year that the parent leaves welfare is denoted by the year zero on the tables and figures. A positive number denotes the number of years after leaving welfare. A parent is determined to have left welfare if he or she has no further record of eligibility. Because the data set only goes to 2001, parents who left before 1998 and never returned were considered to have permanently left welfare. This may bias the results somewhat, since some parents may return after staying away for two or more years.

Table 1
**Real Median Incomes of Single Parents Before and After Leaving Welfare
 Metropolitan Regions**

Period	Year	Region				
		Central Minneapolis- St. Paul	Minneapolis -St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
Years Before Leaving Welfare	-6	\$17,482	\$18,892	\$16,920	\$16,866	\$18,892
	-5	17,235	17,424	17,489	17,007	18,383
	-4	17,687	17,513	17,020	16,857	18,829
	-3	17,979	17,828	17,089	16,839	17,078
	-2	18,236	17,667	17,225	17,718	16,639
	-1	17,896	16,735	16,612	17,749	15,917
Year Left Welfare	0	18,107	17,612	17,638	17,139	16,852
Years After Leaving Welfare	1	20,845	20,925	19,603	19,218	18,911
	2	22,186	22,735	21,176	20,959	20,104
	3	23,162	24,554	22,656	22,286	21,387
	4	24,251	25,979	24,042	22,886	21,958
	5	25,294	27,620	26,189	25,080	24,008
	6	26,245	28,882	28,379	25,646	24,853
	7	26,794	30,801	30,125	27,319	26,292

Figure 1
**Real Median Incomes of Single Parents Before and After Leaving Welfare
 Metropolitan Regions**

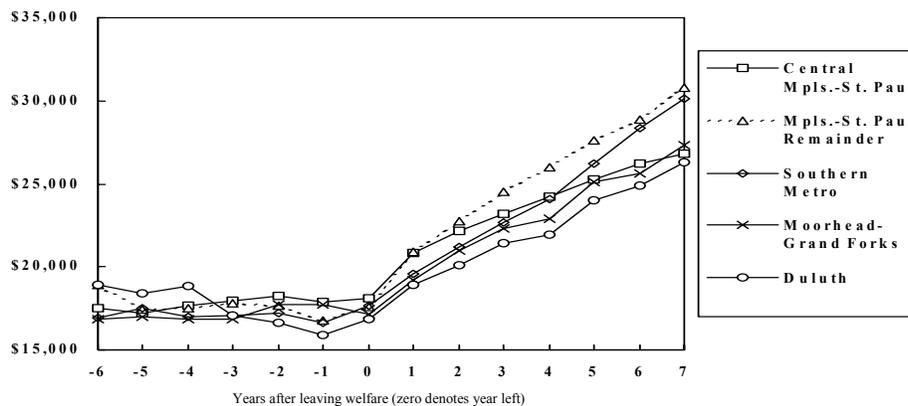


Table 2
Real Median Incomes of Single Parents Before and After Leaving Welfare
Nonmetropolitan Regions

Period	Year	Region				
		Southeast	Southwest	Central	Northeast	Northwest
Years Before Leaving Welfare	-6	\$18,892	\$19,565	\$21,533	\$20,592	\$19,451
	-5	18,892	18,892	19,873	20,573	19,556
	-4	18,829	18,928	19,780	19,644	18,943
	-3	18,263	18,892	19,691	18,488	18,832
	-2	18,727	18,957	19,421	18,707	18,771
	-1	18,214	18,892	18,892	17,066	18,505
Year Left Welfare	0	18,066	18,844	18,829	18,051	18,574
Years After Leaving Welfare	1	19,806	19,842	20,035	19,226	19,780
	2	21,670	21,643	21,646	19,885	21,066
	3	22,873	23,211	23,201	20,805	22,201
	4	24,510	23,998	24,795	22,348	22,632
	5	25,979	25,600	26,106	23,685	23,247
	6	27,622	26,911	27,688	24,779	23,993
	7	29,998	26,376	29,055	23,479	25,431

Figure 2
Real Median Incomes of Welfare Recipients Before and After Leaving Welfare
Nonmetropolitan Regions

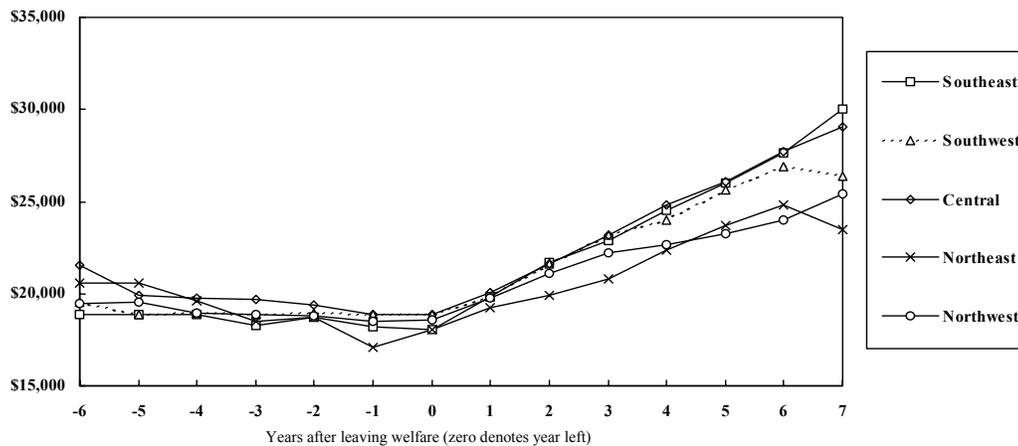


Table 3
Real Median Incomes of Married Parents Before and After Leaving Welfare
Metropolitan Regions

Period	Year	Region				
		Central Minneapolis- St. Paul	Minneapolis -St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
Years Before Leaving Welfare	-6	\$24,508	\$22,880	\$22,695	\$24,284	\$21,317
	-5	23,067	23,658	22,813	23,671	22,760
	-4	23,936	22,880	22,880	23,535	22,760
	-3	24,228	23,906	22,880	24,080	22,861
	-2	24,914	23,573	22,880	23,622	22,522
	-1	24,951	23,545	23,499	24,352	22,760
Year Left Welfare	0	24,819	23,669	22,886	23,181	22,600
Years After Leaving Welfare	1	28,601	26,569	26,069	25,177	24,169
	2	30,851	28,809	28,138	25,616	25,875
	3	33,004	30,664	28,995	26,473	27,614
	4	34,656	32,186	31,096	28,168	28,588
	5	36,982	34,463	32,080	29,174	31,515
	6	37,958	35,789	33,379	28,630	33,361
	7	38,820	35,050	31,739	26,914	35,072

Figure 3
Real Median Incomes of Married Parents Before and After Leaving Welfare
Metropolitan Regions

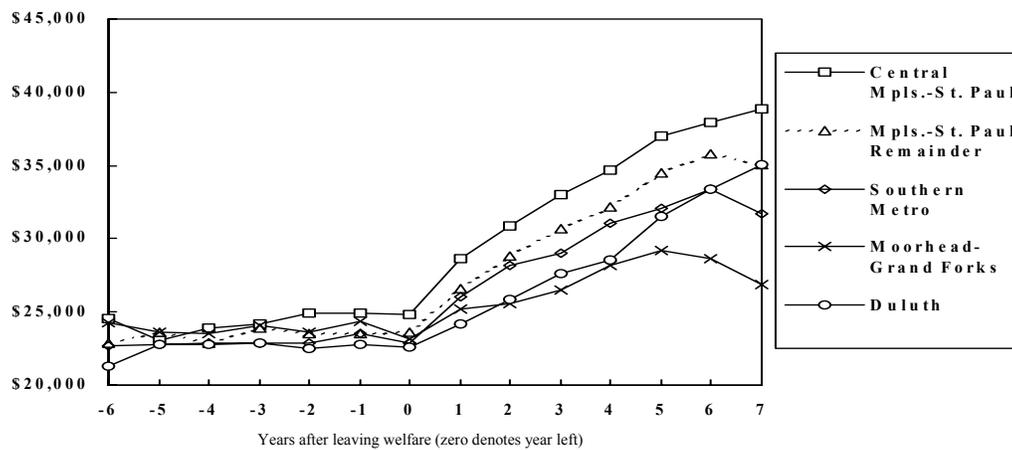
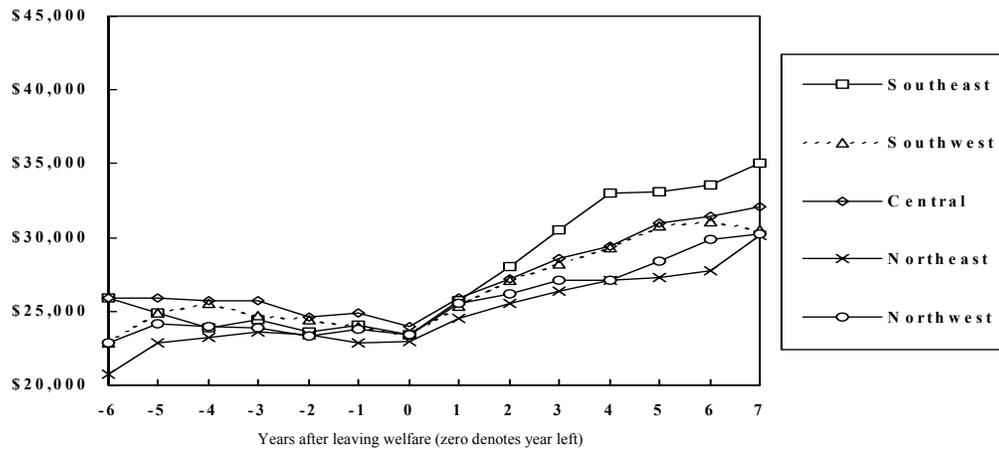


Table 4
Real Median Incomes of Married Parents Before and After Leaving Welfare
Nonmetropolitan Regions

Period	Year	Region				
		Southeast	Southwest	Central	Northeast	Northwest
Years Before Leaving Welfare	-6	\$25,887	\$22,863	\$25,887	\$20,746	\$22,880
	-5	24,906	24,888	25,887	22,880	24,158
	-4	23,856	25,508	25,721	23,202	23,930
	-3	24,449	24,700	25,740	23,559	23,832
	-2	23,625	24,448	24,633	23,384	23,296
	-1	24,022	23,997	24,925	22,886	23,736
Year Left Welfare	0	23,421	23,432	23,947	22,910	23,376
Years After Leaving Welfare	1	25,740	25,343	25,875	24,522	25,555
	2	28,050	27,059	27,191	25,563	26,186
	3	30,526	28,176	28,603	26,379	27,103
	4	33,016	29,355	29,453	27,083	27,146
	5	33,128	30,808	30,960	27,278	28,357
	6	33,591	31,028	31,461	27,724	29,829
	7	35,075	30,563	32,043	30,137	30,270

Figure 4
Real Median Income of Married Parents Before and After Leaving Welfare
Nonmetropolitan Regions



Approximately 55 percent of all parents who left AFDC in 1992 filed an M-1 tax form in 1993.⁴ Parents are less likely to have filed if they lived in Hennepin and Ramsey counties, the Moorhead or East Grand Forks metropolitan areas, or the northwest nonmetropolitan region. Parents who are African American, Hispanic, or Native American, and parents with lower educational attainment levels tend to be less likely to file. It is difficult to say whether these facts bias incomes for Minnesota residents, since many may have left the state and others may have income from other nontaxable sources. For example, those not married, but living with someone who has income would not be included in the data. Also, child support income is not reported with these statistics. There are some who may have too little income to be required to file for taxes and may expect little benefit from the refundable state tax credits (i.e., the working family, dependent care, and education credits). Others may be on some other form of government assistance like Supplemental Security Income (SSI). Still others may be living in homeless shelters or finding other means to meet their needs.

Also, in looking at these statistics, it may be important to recognize that medians can be somewhat deceptive. Medians represent only the mid-point of the distribution, and cannot tell the story of every family. Some parents may see substantial gains in income after leaving welfare, while others may see little gain, or may even lose income. Incomes after leaving welfare depend upon many factors, including work-related skills, physical and emotional health, whether a spouse is working, and their available time to search for a well-paying job. Those who have the luck and the skills needed to overcome barriers may find more success than others.

⁴ Assumes that parents who have not returned by August 2001 will not return to welfare. There will undoubtedly be some parents that will return afterwards. The percentage of filers leaving in 1992, and filing in 1993 equaled 55 percent. For those leaving in 1997 and filing in 1998, it equaled 65 percent.

Income by Region: One Year After Leaving Welfare

The previous section groups incomes across calendar years. The tables were constructed showing the years before and after leaving welfare regardless of whether the parents were on AFDC or MFIP. Also, it provides no insight into whether fluctuations in the economy might make a difference upon median incomes of former welfare recipients. This section includes tables and figures of parents' incomes one year after leaving welfare.

Median real incomes of tax filers, one year after leaving welfare, are higher under MFIP for some regions. Tables 5 through 8 and Figures 5 through 8 list incomes one year after leaving welfare by marital status and by region. The tables and figures show that several regions had higher incomes after 1997.

Among single parents, parents in the Twin Cities metropolitan area had higher incomes. The northwest regions had consistently lower incomes.

For parents married for at least part of their stay on welfare, people in Hennepin and Ramsey counties (Central Minneapolis-St. Paul) often had the highest incomes over all the regions. Parents in Duluth, Moorhead, and East Grand Forks posted the lowest median incomes.

Under welfare reform, the incomes for parents qualifying for MFIP were higher than under AFDC. Some have suggested these higher income limits may have raised the incomes of those leaving welfare. However, this research finds that median real incomes are not necessarily higher under MFIP. Even though median real income is not always higher under MFIP than AFDC that does not imply that MFIP had no effect. It might be that MFIP's higher income eligibility limits raised the incomes of those at the lowest end of the distribution.

How Tables and Graphs 5 through 8 were Constructed: The tables and graphs were constructed by finding the last year that each parent was on welfare. The income of each parent, one year after leaving welfare is placed into a file and the median of the distribution is found for each region and each year. The tables and charts list the year of income. The parent actually left welfare the year before. Incomes are the same as in previous graphs in this brief. It is an estimate of adjusted gross income, which is federal taxable income plus income tax deductions for one's self and family members. A parent is determined to have left welfare if he or she has no further record of eligibility. Because the data set only goes to 2001, parents who left before 1998 and never returned were considered to have permanently left welfare. This may bias the results somewhat, since some parents may return after staying away for two or more years.

Table 5
**Real Median Incomes of Single Parents One Year After Leaving Welfare
 Metropolitan Regions**

Period	Year Left Welfare	Year Income is Listed	Region				
			Central Minneapolis-St. Paul	Minneapolis-St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
AFDC	1992	1993	\$20,627	\$21,191	\$20,001	\$19,790	\$18,829
	1993	1994	20,071	20,793	19,900	20,435	19,798
	1994	1995	20,898	20,685	18,451	19,999	19,196
	1995	1996	20,103	20,650	18,707	19,551	18,707
	1996	1997	20,892	20,677	19,273	18,610	18,019
MFIP	1997	1998	21,282	21,219	20,103	17,566	19,010
	1998	1999	21,760	21,136	20,183	19,158	19,233

Figure 5
**Real Median Income of Single Parents One Year After Leaving Welfare
 Metropolitan Regions**

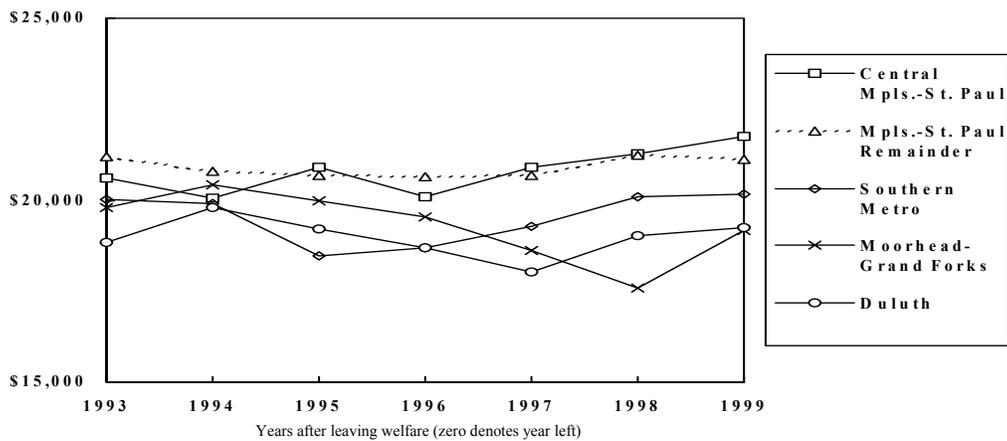


Table 6
**Real Median Incomes of Single Parents One Year After Leaving Welfare
 Nonmetropolitan Regions**

Period	Year Left Welfare	Year Income is Listed	Region				
			Southeast	Southwest	Central	Northeast	Northwest
AFDC	1992	1993	\$20,363	\$19,780	\$20,026	\$21,374	\$19,780
	1993	1994	19,873	19,256	20,316	19,850	19,850
	1994	1995	20,015	20,003	19,904	18,911	19,944
	1995	1996	20,010	19,847	19,486	19,187	19,656
	1996	1997	19,238	18,911	19,898	18,911	19,668
MFIP	1997	1998	19,169	20,046	20,830	19,799	19,559
	1998	1999	19,918	20,706	20,115	18,124	19,666

Figure 6
**Real Median Income of Single Parents One Year After Leaving Welfare
 Nonmetropolitan Regions**

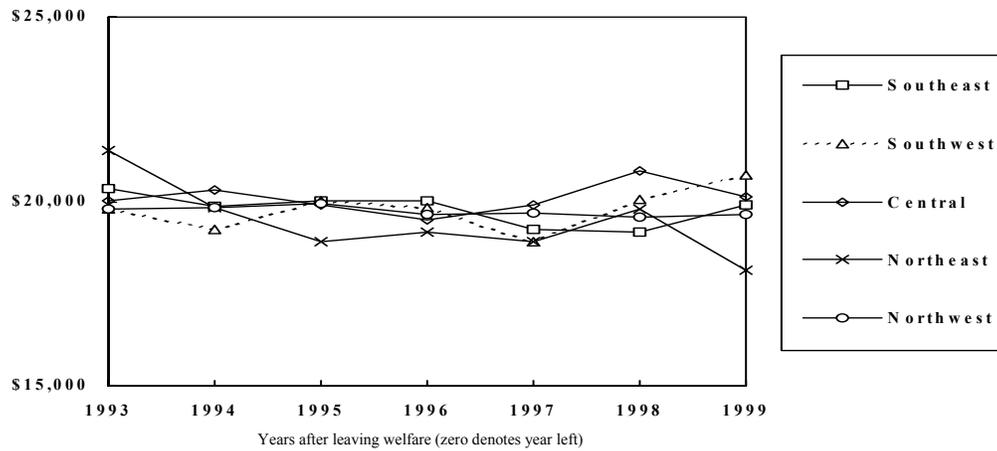


Table 7
**Real Median Incomes of Married Parents One Year After Leaving Welfare
 Metropolitan Regions**

Period	Year Left Welfare	Year Income is Listed	Region				
			Central Minneapolis-St. Paul	Minneapolis-St. Paul Remainder	Southern Metropolitan Areas	Moorhead and Grand Forks	Duluth
AFDC	1992	1993	\$26,534	\$25,828	\$27,254	\$23,776	\$25,740
	1993	1994	27,700	26,517	24,308	25,457	22,948
	1994	1995	28,779	25,875	25,791	23,833	23,099
	1995	1996	27,851	24,951	25,635	24,540	24,052
	1996	1997	29,120	26,184	25,834	25,309	24,904
MFIP	1997	1998	28,989	28,282	28,899	27,340	24,942
	1998	1999	29,711	28,452	28,152	25,556	24,002

Figure 7
**Real Median Income of Single Parents One Year After Leaving Welfare
 Nonmetropolitan Regions**

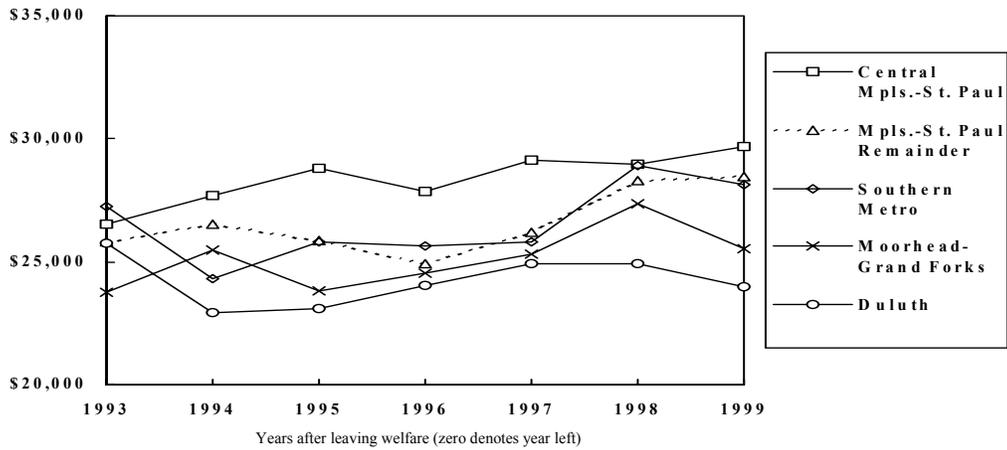
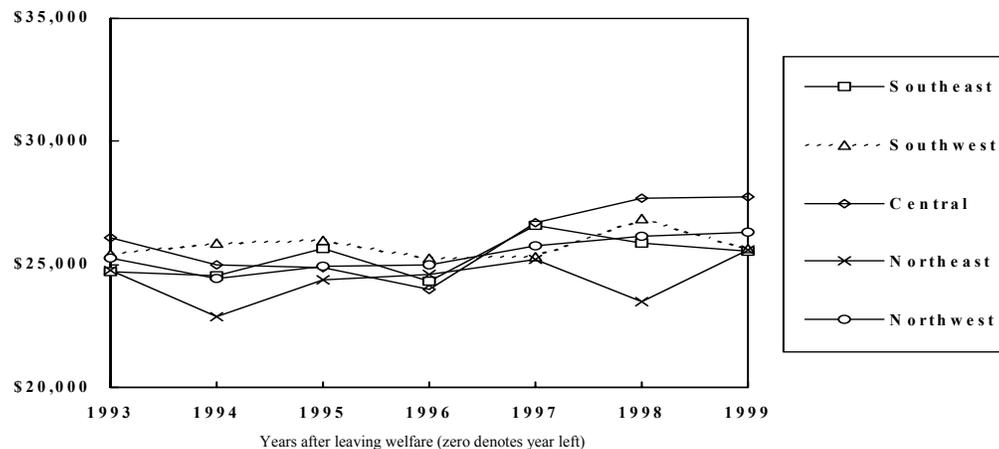


Table 8
Real Median Incomes of Married Parents One Year After Leaving Welfare
Nonmetropolitan Regions

Period	Year Left Welfare	Year Income is Listed	Region				
			Southeast	Southwest	Central	Northeast	Northwest
AFDC	1992	1993	\$24,712	\$25,401	\$26,068	\$24,752	\$25,254
	1993	1994	24,518	25,873	25,004	22,861	24,427
	1994	1995	25,632	25,983	24,856	24,362	24,906
	1995	1996	24,343	25,282	24,012	24,616	25,007
	1996	1997	26,592	25,321	26,686	25,206	25,732
MFIP	1997	1998	25,884	26,843	27,710	23,477	26,145
	1998	1999	25,528	25,672	27,730	25,567	26,310

Figure 8
Real Median Income of Married Parents One Year After Leaving Welfare
Nonmetropolitan Regions



House Research Graphics

Tables 9 and 10 list the income eligibility limits for several specific family types on AFDC and MFIP.⁵ The tables list income on an annual basis and are converted to real dollars for year 2001.

⁵ The assistance grant was meant to be the maximum income a family might retain before becoming ineligible for AFDC or MFIP. The AFDC grant involved several arithmetic calculations and assumptions. AFDC rules limit eligibility to 185 percent of the AFDC standard. The standards are monthly incomes allowed for parents and children. It might be that some parents may have incomes below the 185 percent limit, but qualify for zero dollars of AFDC cash grant money. To account for this, the income in which the AFDC grant becomes zero is calculated. To do this, several assumptions were made. Besides those listed in the paragraph, it was assumed that: (1) the parent receives no income in child support; (2) all of the work disregard is taken; and (3) all of the child care disregard is taken. AFDC allows different disregard amounts based upon whether the child is age two or under. It was assumed that the first two children were under two and all subsequent children were over two. Given these calculations, the maximum income eligibility limit is the lower of the 185 percent limit and the income at which the AFDC grant is effectively equal to zero dollars. This will estimate the maximum at which several parent types will be eligible for AFDC or MFIP. The entire child care disregard was included because some parents may in effect, choose a higher disregard by purchasing more child care. The 30-and-1/3 work disregard was not chosen because

To construct the tables it was assumed that parents stay on AFDC beyond the number of months they would be eligible for the 30-and-1/3 work deduction.⁶ Also, parents are assumed to take the maximum allowable child care disregard.⁷ Table 9 lists the limits for single parents. Table 10 lists them for married parents. Because AFDC was not adjusted for inflation, the income eligibility limit of AFDC, after adjusting for inflation, diminished over time. Under MFIP, incomes still did not keep up with inflation, because only part of the grant, that which accounts for the food portion, is adjusted for inflation.

Table 9
Income Eligibility Limits for Single Parents
Real Income (2001 dollars)

Program	Year*	Number of Children				
		1	2	3	4	5
AFDC	1992	\$11,013.60	\$15,249.60	\$18,024.18	\$20,230.04	\$22,435.90
	1993	10,681.29	14,789.48	17,480.35	19,619.65	21,758.95
	1994	10,354.01	14,336.32	16,944.74	19,018.49	21,092.24
	1995	10,114.53	14,004.73	16,552.82	18,578.61	20,604.39
	1996	9,788.26	13,552.97	16,018.86	17,979.30	19,939.74
	1997	9,567.80	13,247.72	15,658.07	17,574.36	19,490.64
MFIP	1998	13,797.77	17,546.17	20,765.65	23,571.20	26,790.68
	1999	13,954.90	17,454.77	20,687.14	23,451.37	26,706.03

* Left welfare one year earlier

Table 10
Income Eligibility Limits for Two Parents
Real Income (2001 dollars)

Program	Year*	Number of Children				
		1	2	3	4	5
AFDC	1992	\$12,158.89	\$16,394.89	\$20,142.96	\$22,348.82	\$24,554.68
	1993	11,792.03	15,900.22	19,535.20	21,674.50	23,813.81
	1994	11,430.71	15,413.02	18,936.63	21,010.38	23,084.14
	1995	11,166.33	15,056.53	18,498.64	20,524.43	22,550.22
	1996	10,806.12	14,570.84	17,901.91	19,862.35	21,822.79
	1997	10,562.74	14,242.66	17,498.71	19,415.00	21,331.29
MFIP	1998	17,546.17	20,765.65	23,571.20	26,790.68	29,573.23
	1999	17,454.77	20,687.14	23,451.37	26,706.03	29,158.17

* Left welfare one year earlier

parents permanently leaving welfare were examined. It was assumed that many of these parents might no longer qualify for the disregard.

⁶ The 30-and-1/3 disregard allows the first \$30 of earnings to be deducted from income for purposes of calculating the AFDC grant. In addition, one-third of the remaining balance of earnings is disregarded. This was not included in the example family types, because the benefit is limited to four months of employment.

⁷ The Minnesota Department of Human Services notes that child care disregards were used by only about 3 percent of the AFDC caseload (25 percent or so of the 10 percent to 11 percent of cases that had earned income).

The table shows that in 1998, a single parent with two children exits MFIP with annual income exceeding \$17,546. That's slightly less than the median income for welfare parents who file taxes and live in the Moorhead and Grand Forks metropolitan region. The median for this region, the lowest for all regions in 1998, was \$18,985.

MFIP may still raise incomes at the lower end of the distribution. Because many parents who would qualify for welfare would return again, at least some of the parents that have left welfare would likely have incomes above the limit.⁸ Otherwise these parents would enter back into welfare. Although this may not be true for all parents. Some may feel a stigma towards welfare benefits and not apply even though they qualify. Others may save their welfare months for a later period in their lives.⁹

Conclusion

There are differences in incomes across regions for parents leaving welfare. The Twin Cities metropolitan area tends to have higher incomes, while Moorhead and Grand Forks tend to exhibit lower incomes. Incomes steadily increase with the number of years the parent has been away from welfare. Unlike our previous research, this research indicates that incomes are not necessarily higher under MFIP compared to AFDC. It was hypothesized in a previous paper that MFIP may have raised the median incomes of parents. It might be that the incomes at the bottom of the distribution are higher, but incomes at the median are not necessarily affected by the MFIP limits.

⁸ Although some suggest that the 60-month time limits may result in some parents refusing to enter MFIP, even when eligible, in order to bankroll eligible TANF months (Grogger and Michalopoulos 1999). Still others suggest that some parents, who are eligible for welfare, will not apply because of the negative stigma attached to reciprocity (Moffitt 1983). The Food Stamp program provides an added incentive to not apply for MFIP even when eligible. MFIP cashes out food stamp benefits. Instead of separately qualifying for two programs, MFIP includes both. A parent can go without MFIP and receive food stamps instead. These food stamps allow the parent to receive some in-kind assistance while not using up the 60-month time limit.

⁹ See Rank and Hirsch (1988) for an example of welfare stigma in the Wisconsin welfare programs. Also see Grogger and Michalopoulos (1999) and Moffitt (1983) for an example of banking TANF months.

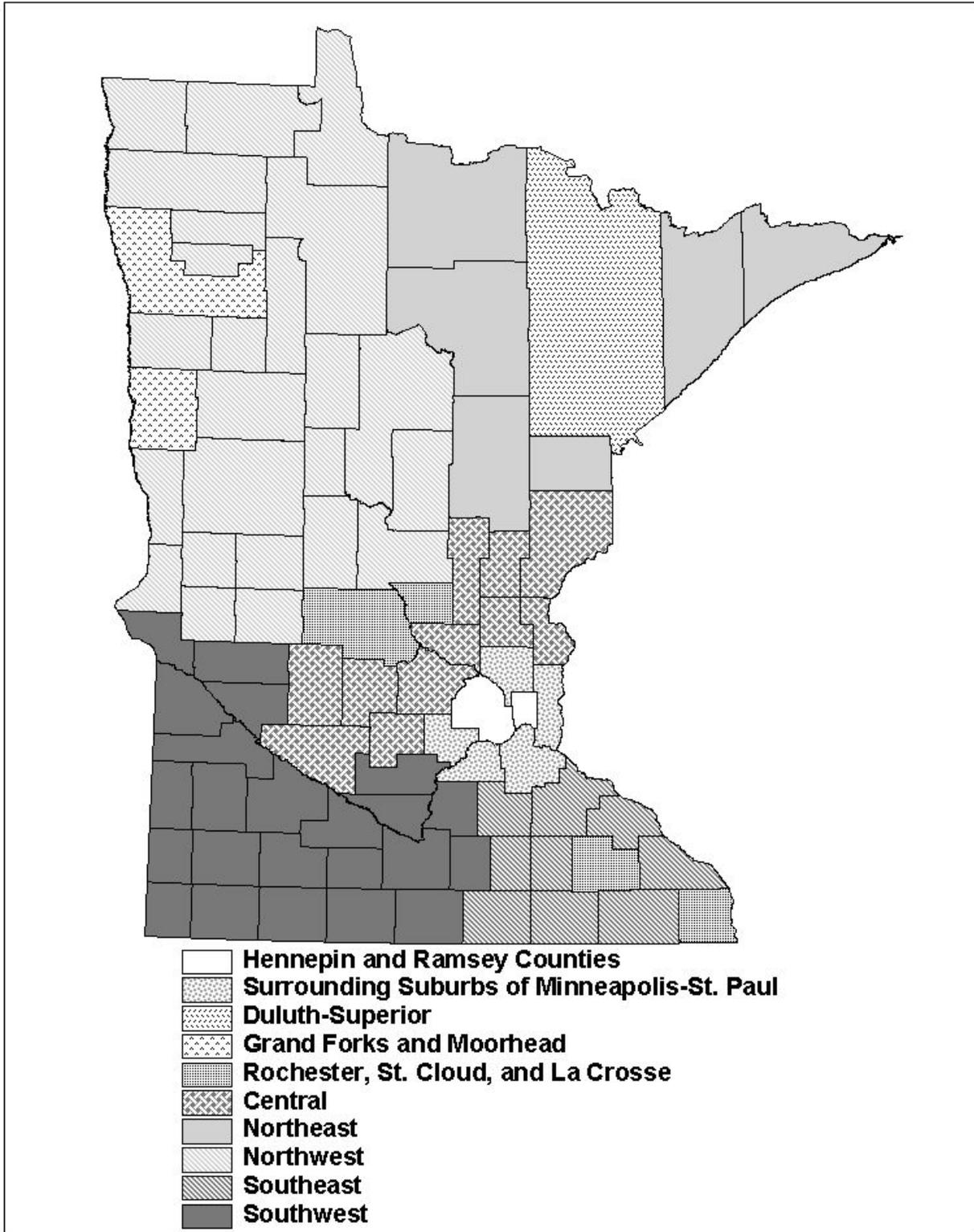
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Map of Minnesota Regions



Appendix: County by County Listing of Regions

Metropolitan Minnesota

Central Minneapolis-St. Paul Hennepin Ramsey	Moorhead and Grand Forks Clay (Fargo-Moorhead) Polk (Grand Forks)	Duluth St. Louis
Surrounding Suburbs of Minneapolis-St. Paul Anoka Carver Dakota Scott Washington	Southern Metropolitan Areas (Rochester, La Crosse, and St. Cloud) Benton (St. Cloud) Houston (La Crosse) Olmsted (Rochester) Stearns (St. Cloud)	

Nonmetropolitan Minnesota

Central Chisago Isanti Kanabec Kandiyohi McLeod Meeker Mille Lacs Pine Sherburne Wright	Northwest Becker Beltrami Cass Clearwater Crow Wing Douglas Grant Hubbard Kittson Lake of the Woods Mahnomen Morrison Norman Ottertail Pennington Pope Red Lake Roseau Stevens Todd Traverse Wadena Wilkin	Southwest Big Stone Blue Earth Brown Chippewa Cottonwood Faribault Jackson Lac qui Parle Le Sueur Lincoln Lyon Martin Murray Nicollet Nobles Pipestone Redwood Renville Rock Sibley Swift Waseca Watonwan Yellow Medicine
Northeast Aitkin Carlton Cook Itasca Koochiching Lake		
Southeast Dodge Fillmore Freeborn Goodhue Mower Rice Steele Wabasha Winona		

For more information about welfare, visit the health and human services area of our web site, www.house.mn/hrd/issinfo/hlt_hum.htm.